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GREAT NORTHERN GAS UTILITIES LTD.

ANNUAL REPORT 1966





BOARD OF DIRECTORS

Fernand E. Chenu <i>Brussels, Belgium</i>	Raymond A. Rich <i>Philadelphia, Pennsylvania</i>
E. Jacques Courtois, Q.C. <i>Montreal, Quebec</i>	Anthony C. Rooney <i>Edmonton, Alberta</i>
Marc H. Dhavernas <i>Montreal, Quebec</i>	William Spark <i>Calgary, Alberta</i>
Michael H. Finnell <i>Calgary, Alberta</i>	David R. Williams, Jr. <i>Chagrin Falls, Ohio</i>
Frederick T. Phillips <i>Calgary, Alberta</i>	John H. Williams <i>Tulsa, Oklahoma</i>

OFFICERS

Raymond A. Rich, *Chairman of the Board and Chief Executive Officer*
 Anthony C. Rooney, *President*
 Eric Sherwood, *Vice-President*
 D. Ross McRae, *Vice-President—Propane*
 Ernest W. Straus, *Secretary-Treasurer*

SUBSIDIARY COMPANIES

Plains-Western Gas & Electric Co. Ltd.
Operating in Alberta, British Columbia and Yellowknife, N.W.T.
 Plains-Western Gas (Manitoba) Ltd.
Operating in Manitoba and Saskatchewan
 Great Northern Gas Company, Limited
Operating in Ontario
 Rockgas Utilities Ltd.
Operating in British Columbia
 Rockgas Propane Ltd.
Operating in British Columbia
 North Shore Propane Company Limited
Operating in Ontario

TRANSFER AGENTS AND REGISTRAR

Montreal Trust Company,
Montreal, Toronto and Edmonton

TRUSTEE FOR DEBENTURES

Montreal Trust Company,
Montreal, Toronto and Edmonton

HEAD OFFICE

10975 – 124th Street, Edmonton, Alberta



HIGHLIGHTS

	1966	1965	1964	1963
Customers at Year End	51,833	48,928	46,144	43,754
Natural Gas Sales (Thousands of cubic feet)	6,262,492	5,827,574	4,980,469	4,270,844
Propane-Air Gas Sales (Thousands of cubic feet)	231,824	215,962	149,053	115,302
Propane (Gallons)	23,818,530	20,311,593	15,544,642	12,573,403
Electricity (KWH)	11,297,812	10,603,028	9,813,075	9,190,079
Revenue and Other Income	\$11,061,919	\$ 9,869,262	\$ 8,324,526	\$ 7,400,420
Cash Flow	\$ 1,910,257	\$ 1,744,534	\$ 1,516,818	\$ 1,318,107
Net Income	\$ 971,044	\$ 909,611	\$ 782,878	\$ 676,612
Annual Additions to Plant (net)	\$ 2,540,730	\$ 2,318,799	\$ 2,131,328	\$ 1,070,811
Gross Plant	\$24,578,778	\$23,077,080	\$20,871,690	\$18,740,362
Miles of Pipeline (Transmission and Distribution)	1,006	937	898	815



TO THE SHAREHOLDERS:

The past year's results show a continuing favorable trend in earnings. Operating revenue, net income, cash flow, sales volumes of gas, propane and electricity and number of customers served during 1966 were the highest achieved to date.

Financial

Operating revenues exceeded \$10,000,000 for the first time with total revenues and other income amounting to \$11,061,919, an increase of \$1,192,657 or 12.1% higher than 1965. Net income for the year was \$971,044, an increase of \$61,433 or 6.75% over the preceding year. After payment of dividends of \$232,500 on preferred shares, earnings attributable to common shares were \$738,544, an increase of \$158,933 over the preceding year.

While the increases in gross revenues and net income for the year are gratifying, higher operating costs are being experienced, reflecting the higher costs of labour and materials as well as the Company's continuing expansion. Management continues to take all indicated and reasonable steps to control operating costs in line with maintaining efficient operations in order that improvement in future earnings and the continuance of fair and competitive rates and prices may be realized. The Company will continue to use all reasonable and effective means to attract new cus-

tomers and to furnish all customers with excellent service at all times.

A table of highlights and illustrative charts are provided in this report showing the growth in sales of commodities and service which the Company sells.

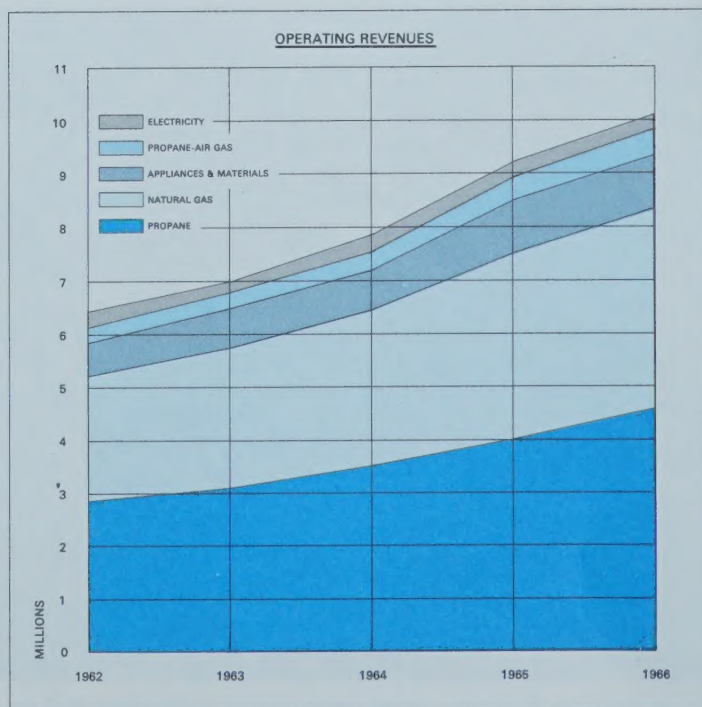
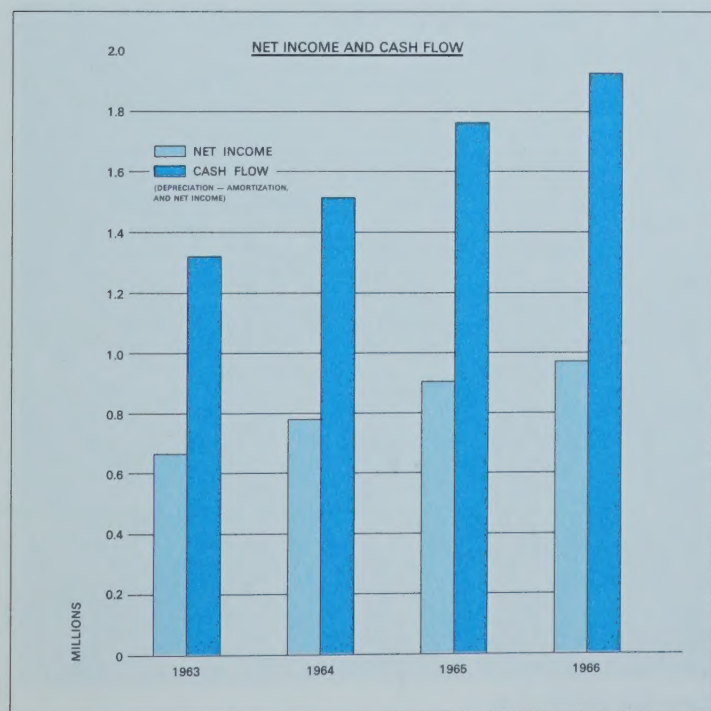
During the year, the Company's investment in Canadian Hydrocarbons Limited was sold and a non-recurring gain of \$1,219,496 was realized. The proceeds from the sale of this investment were used to purchase for cancellation all the outstanding Initial Series Preferred Shares and repay the 6% note due to a shareholder.

In August \$3,000,000—6% Series "A" Preferred Shares were issued and the proceeds in part were used to reduce the bank loan and \$1,900,000 has been set aside for general corporate purposes.

At the year end, working capital, before providing for bank loans and bankers acceptances of \$1,880,000, was \$3,326,234, an increase of \$2,136,220 over the comparable figure of the preceding year end.

Gas and Product Supply

With the commencement of service to a new large industrial customer in Brandon, Manitoba, most of our gas purchase contracts for that Province were re-negotiated and because of a more favorable load factor considerable savings will result. It is estimated that this customer, a fertilizer plant, will



use ten million cubic feet of gas per day as a feed stock. This plant should be operating at full capacity shortly.

In Alberta, we have contracted with two producers for additional supplies of natural gas and have connected to two new gas wells which are being operated by your Company.

The Company now operates eighteen gas wells in Alberta and with the gas under contract from other gathering systems or pipelines has call on sufficient supply to meet anticipated demand.

The Company continues to contract for propane on a relatively short-term basis, but no difficulty is expected in being able to purchase our full requirements on favorable terms.

Capital Expenditures

Extensions and improvements to existing plant were made in all franchise areas. Three new communities in Manitoba were connected and are being served by natural gas and a piped propane system was installed in Rumble Beach, British Columbia. A large number of our propane plants were expanded and two new branches were opened during the year. Total additions to plant amounted to \$2,650,889.

Construction has been started on a new office, warehouse propane storage plant and service centre in Burnaby, British Columbia. These new premises will accomodate the

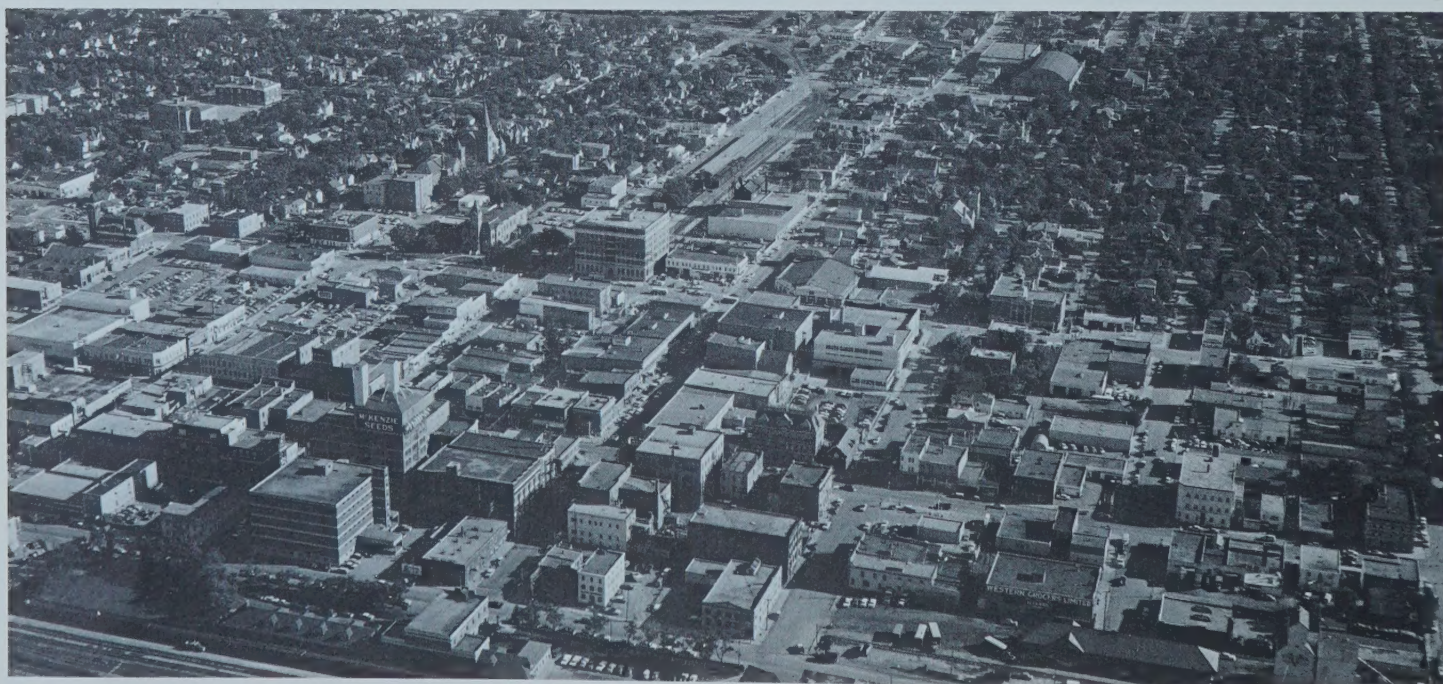
head office personnel of Rockgas Propane Ltd. and the centralization of operations presently established at three locations in and adjacent to Vancouver. On completion, the building will be sold and leased back to Rockgas Propane.

Pacific Northern Gas Ltd.

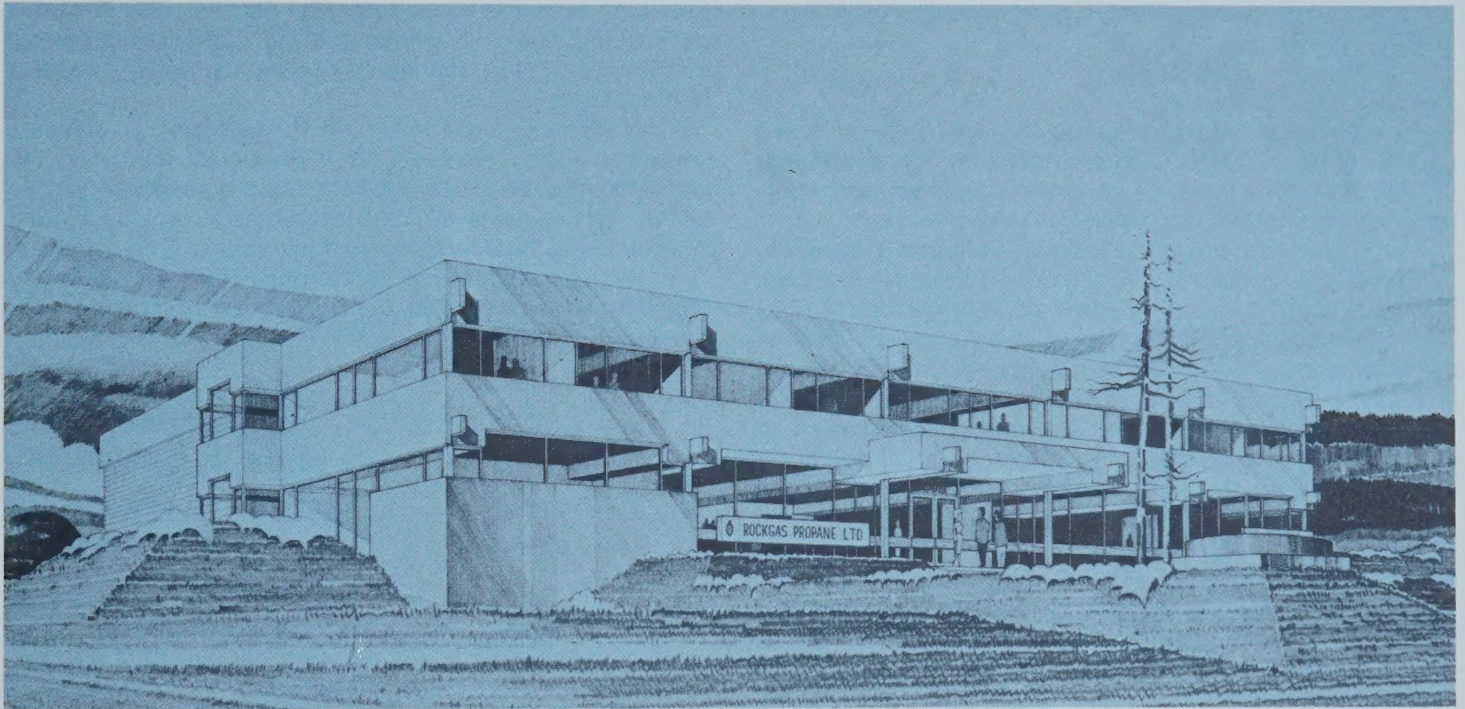
As reported last year, your Company is a co-sponsor of Pacific Northern Gas Ltd., a British Columbia company, formed to construct and operate a 430 mile pipeline from north of Prince George, British Columbia to Prince Rupert, with laterals to Kitimat and Smithers and distribution systems to service fourteen communities in the area. Pacific Northern has now been granted a Certificate of Public Convenience and Necessity by the Public Utilities Commission of British Columbia and is proceeding with plans to finance and construct the required facilities.

A long-term contract for the sale of gas to a large industrial customer has been negotiated and discussions are taking place with two additional large industrial customers. Agreements with the respective towns are expected to be concluded shortly.

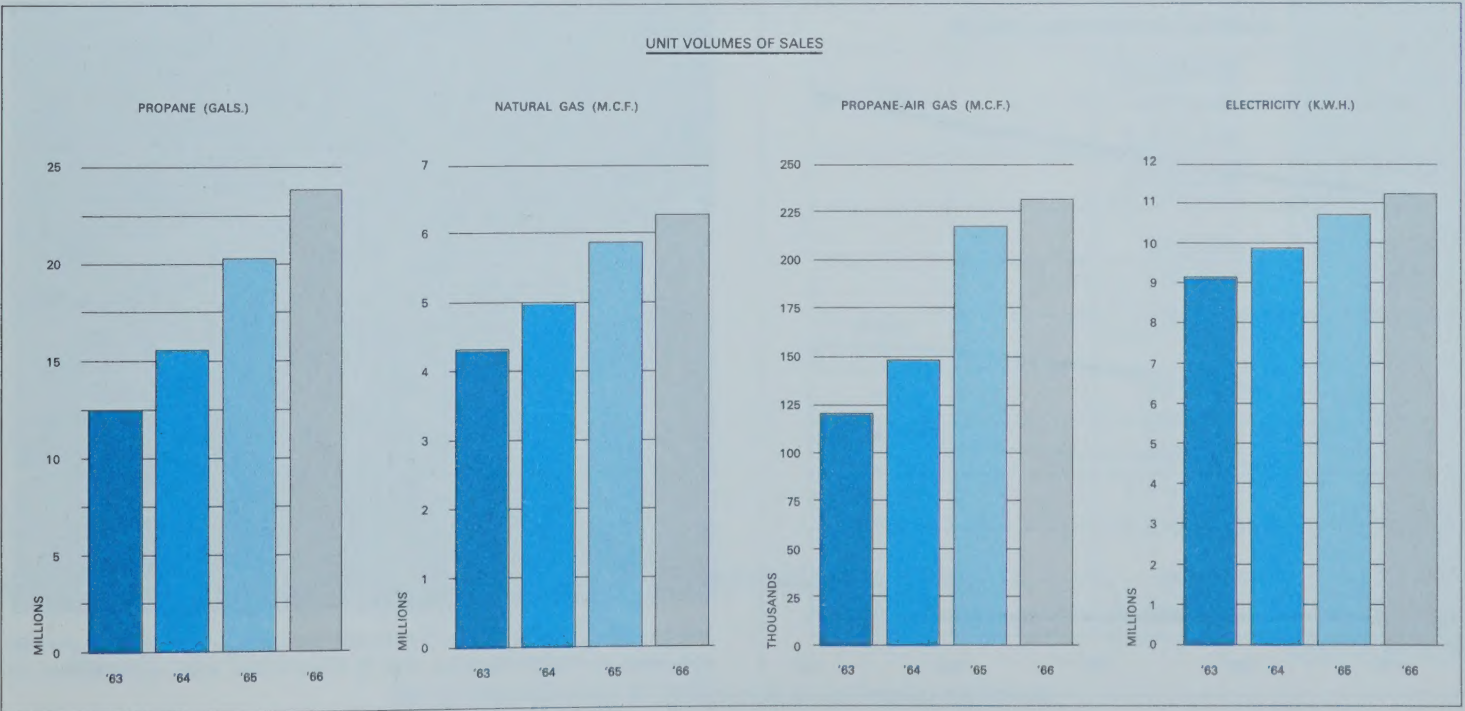
The areas to be served by Pacific Northern have been experiencing rapid growth. The increased pulp and paper mill capacity constructed during 1966 and that projected over the next five years together with the existing and projected lumbering and mining industry in the area make



City of Brandon, Manitoba, served natural gas by a subsidiary of Great Northern Gas Utilities Ltd.



Office, Warehouse and Service Centre under construction in Burnaby, British Columbia, for Rockgas Propane Ltd., a subsidiary of Great Northern Gas Utilities Ltd.



the future of Pacific Northern Gas both promising and exciting.

Future

The capital expenditures program for 1967 will be in the general order of \$3,000,000 providing for our continuing growth through expansion of present facilities and additions to the number of communities to be served.

The operations of your Company extending from the Pacific Ocean in the West to Ontario in the East and with our electrical distribution system in Yellowknife, N.W.T., recently established as the Capital and Centre of Government for the North West Territories, provide an excellent area for continued expansion in the commodities and services it provides its customers. We hold a high degree of confidence in the Company's future and its ability to participate in the future of Canada.

General

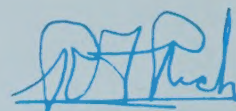
Vacancies on the Board of Directors created by the resignations of Gordon H. Allen, Q.C., Richard A. Bethell and Charles E. Garnett, were filled by the appointment to the Board of Marc H. Dhavernas, Michael H. Finnell and Frederick T. Phillips.

Subsequent to the year end, Canadian Hydrocarbons Limited acquired all the outstanding common shares of the

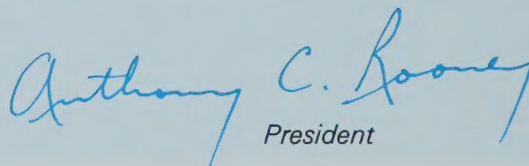
Company from Elwill Development Ltd. As a result of this transaction, Elwill Development Ltd. will own approximately 55% of the outstanding common stock of Canadian Hydrocarbons Limited.

Your Company will continue to maintain its separate corporate entity. However, it is expected that with the larger financial base to work from and the increased pool of talent, opportunities for new investments will occur and improvements in procedures and systems will be achieved.

To all the employees of the Company for their continued efficient and loyal service, we express the sincere appreciation of the Directors.

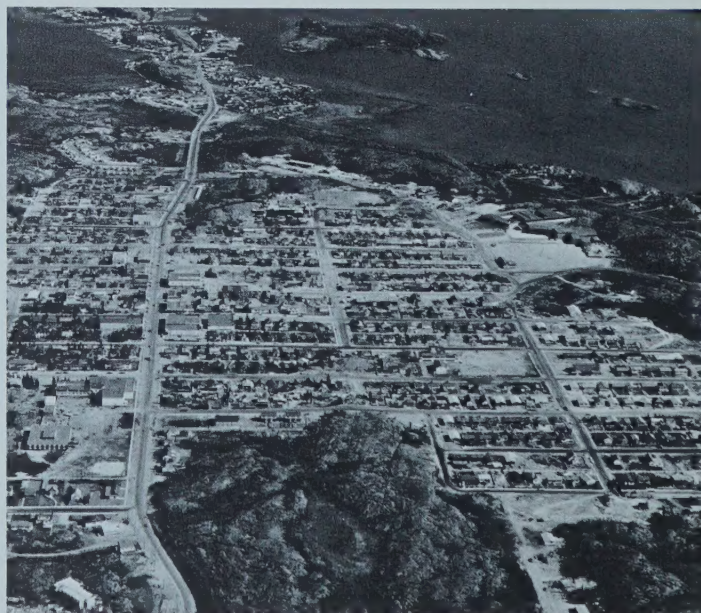
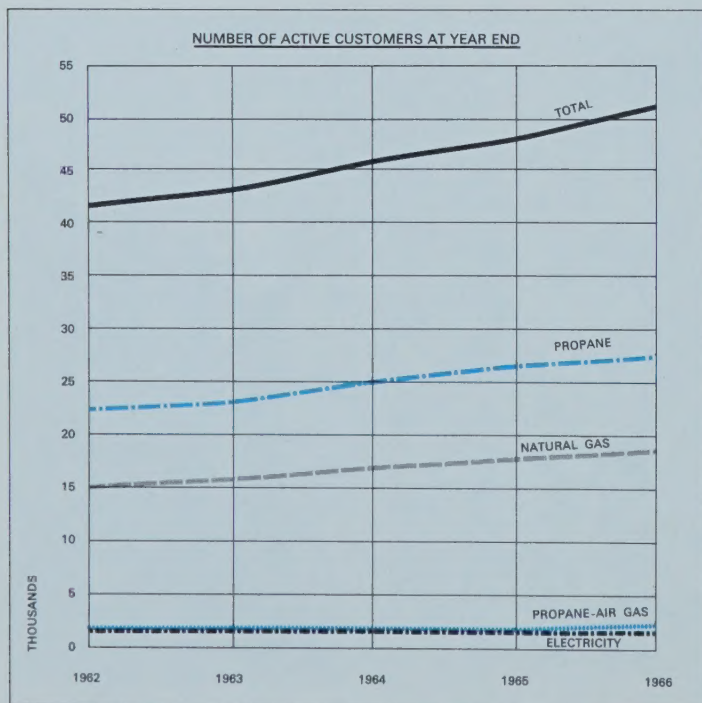


Chairman of the Board



President

Edmonton, Alberta, April 13, 1967



Yellowknife, Capital of the Northwest Territories, with electric service provided by Plains-Western Gas & Electric Co. Ltd., a subsidiary of Great Northern Gas Utilities Ltd.

CONSOLIDATED STATEMENT OF INCOME for the year ended December 31, 1966

(with comparative figures for 1965)

	1966	1965
Operating revenue:		
Sales	\$10,118,433	\$ 9,117,042
Sundry	776,149	573,507
	<u>10,894,582</u>	<u>9,690,549</u>
Expenses:		
Cost of sales	4,512,812	3,927,904
Operating, selling and administrative expenses	3,513,966	3,077,131
Interest	638,703	629,477
Depreciation and amortization	952,394	849,139
	<u>9,617,875</u>	<u>8,483,651</u>
Operating income	1,276,707	1,206,898
Other income	167,337	178,713
Income before income taxes	1,444,044	1,385,611
Income taxes (Note 6)	473,000	476,000
Net income for the year	<u>\$ 971,044</u>	<u>\$ 909,611</u>

CONSOLIDATED STATEMENT OF SURPLUS for the year ended December 31, 1966

(with comparative figures for 1965)

	1966	1965
Earned surplus:		
Balance, beginning of year	\$1,075,858	\$ 871,847
Net income for the year	971,044	909,611
Gain on sale of investment	1,219,496	—
	<u>3,266,398</u>	<u>1,781,458</u>
Dividends paid —		
Preferred	232,500	330,000
Common	500,800	375,600
	<u>733,300</u>	<u>705,600</u>
Write-off of deferred expenses and intangible assets —		
Share issue costs and unamortized incorporation costs	321,869	—
Unamortized debenture issue costs and discounts	304,672	—
Integration and lease value	489,739	—
	<u>1,116,280</u>	<u>—</u>
Balance, end of year	1,416,818	1,075,858
Excess of book value over cost of investment in subsidiary companies at acquisition . .	89,700	89,700
	<u>\$1,506,518</u>	<u>\$1,165,558</u>

The attached notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET, December 31, 1966

(with comparative figures at December, 1965)

ASSETS	1966	1965
Properties — at cost (Note 1):		
Transmission lines, distribution systems, propane stations, service equipment, gas wells, land, buildings, transportation equipment, franchises and gas contracts	\$24,578,778	\$23,077,080
Less accumulated depreciation and depletion	6,105,127	5,715,748
	<u>18,473,651</u>	<u>17,361,332</u>
Investments — at cost:		
Marketable securities (quoted \$14,640; 1965 \$7,134,000)	2,440	5,693,394
Other	1,000	1,000
Mortgages	108,526	107,058
	<u>111,966</u>	<u>5,801,452</u>
Deferred receivables — leases	157,167	110,169
5% special refundable tax	<u>55,000</u>	<u>—</u>
Current assets:		
Cash	364,130	238,866
Short-term investments	1,900,000	—
Accounts receivable	2,132,452	1,676,669
Conditional sales agreements	135,076	89,095
Inventories of appliances and materials at lower of cost or net realizable value	896,015	740,521
Prepaid expenses	140,283	117,051
	<u>5,567,956</u>	<u>2,862,202</u>
Deferred charges:		
Share issue costs and unamortized incorporation costs	—	98,273
Development costs	41,421	18,749
Conversion and plant costs (Note 2)	169,967	173,087
Unamortized debenture issue costs and discounts	—	306,392
	<u>211,388</u>	<u>596,501</u>
	<u>\$24,577,128</u>	<u>\$26,731,656</u>

The attached notes are an integral part of this statement.

LIABILITIES

	1966	1965
Capital stock and surplus:		
Capital stock (Note 3) —		
Preferred:		
Authorized —		
250,000 shares of a par value of \$25, issuable in series		
Issued and fully paid —		
120,000 cumulative redeemable 6% series A with a par value of \$25, issued during 1966 for cash	\$ 3,000,000	\$ —
300,000 cumulative redeemable 5½% initial series redeemed in 1966 at par	—	6,000,000
Common:		
Authorized —		
5,000,000 shares of no par value		
Issued and fully paid —		
3,130,000 shares	6,034,970	6,034,970
Surplus (Note 4)	1,506,518	1,165,558
	<u>10,541,488</u>	<u>13,200,528</u>
Customers' contributions in aid of construction	249,149	203,755
Term debt (Note 5)	<u>8,957,437</u>	<u>10,187,250</u>
Deferred liabilities:		
Unearned lease income on propane tanks	424,365	405,001
Dealers' and customers' refundable deposits	282,967	252,934
	<u>707,332</u>	<u>657,935</u>
Current liabilities:		
Bank loan (secured)	1,480,000	810,000
Bankers' acceptances (secured)	400,000	—
Accounts payable	1,716,307	1,054,212
Income taxes payable	233,885	246,810
Current instalments on term debt	39,812	99,417
Accrued interest	251,718	271,749
	<u>4,121,722</u>	<u>2,482,188</u>
	<u>\$24,577,128</u>	<u>\$26,731,656</u>

On behalf of the Board :

R. A. Rich, *Director*

Anthony C. Rooney, *Director*

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS for the year ended December 31, 1966
(with comparative figures for 1965)

	1966	1965
Funds were provided from:		
Operations —		
Net earnings for the year	\$ 971,044	\$ 909,611
Add:		
Depreciation and amortization	952,394	849,139
Other — non-cash income and expenses (net)	(13,181)	(14,216)
Total cash flow from operations	1,910,257	1,744,534
Preferred shares issued	3,000,000	—
Issue of 6% sinking fund debentures	—	9,000,000
Sale of investments	6,910,475	—
Other	50,625	41,169
	<u>11,871,357</u>	<u>10,785,703</u>
Funds were applied to:		
Purchase of fixed assets (net)	2,540,730	2,318,799
Preferred shares purchased for cancellation	6,000,000	—
Repayment of term debt	1,229,813	3,870,355
Payment of dividends —		
Preferred	232,500	330,000
Common	500,800	375,600
Share and debenture issue costs	223,597	321,868
5% special refundable tax	55,000	—
Other	22,697	18,239
	<u>10,805,137</u>	<u>7,234,861</u>
Increase in working capital	<u>\$ 1,066,220</u>	<u>\$ 3,550,842</u>

The attached notes are an integral part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, December 31, 1966

NOTE 1. PROPERTIES:

Properties are stated at cost except as to appraisals increasing previously stated values by \$469,883, subsequently reduced by \$181,915 of depreciation charged to operations. These appraisals were reflected in the books of the respective subsidiaries prior to acquisition by the company.

NOTE 2. CONVERSION AND PLANT COSTS:

The total of \$169,967 is to be amortized in the following manner –

(a) The cost of conversion of customer appliances from manufactured gas to propane - air gas in the amount of \$114,977, and changes to the distribution system in the amount of \$36,269 are to be amortized commencing in the year in which natural gas is introduced.

(b) Retirement of a gas plant in the amount of \$18,721 to be amortized at an annual rate of \$3,120.

NOTE 3. CAPITAL STOCK:

Preferred shares –

Supplementary letters patent dated June 30, 1966, cancelled 50,000 unissued preferred shares of the par value of \$20, created 250,000 preferred shares of the par value of \$25 issuable in series and designated 120,000 such shares as 6% cumulative redeemable preferred shares series A.

The series A preferred shares are redeemable at any time at a price of \$26.25 per share plus accrued and unpaid dividends.

During the year the company purchased for cancellation 300,000 cumulative redeemable preferred shares, 5½% initial series, of the par value of \$20.

NOTE 4. DIVIDENDS:

Provisions attaching to the series A preferred shares limit the declaration and payment of cash dividends on common shares to the consolidated net earnings of the company and its subsidiaries earned after December 31, 1965.

NOTE 5. TERM DEBT:

	1966	1965
6% sinking fund debentures, series A due January 15, 1985	\$ 8,910,000	\$ 9,000,000
6% notes payable due to shareholders and payable on demand	—	1,100,000
5% note due 1967	24,000	101,000
5% agreement payable	—	6,605
5½% notes payable 1967-1970	63,249	79,062
	<u>8,997,249</u>	<u>10,286,667</u>
Less current instalments shown as a current liability	39,812	99,417
	<u>\$ 8,957,437</u>	<u>\$10,187,250</u>

Under the provisions of the trust indenture payments to the sinking fund trustee are required so as to retire debentures as follows:

	Annual retirement	Total to be retired
1968-1970	\$ 90,000	\$ 270,000
1971-1974	180,000	720,000
1975-1978	270,000	1,080,000
1979-1982	360,000	1,440 000
1983-1984	450,000	900,000
		<u>\$ 4,410,000</u>

NOTE 6. INCOME TAXES:

Income taxes otherwise payable have been reduced by \$1,819,000 of which \$191,000 pertains to the current year, by claiming capital cost allowance in excess of depreciation recorded in the accounts.

NOTE 7. OTHER STATUTORY INFORMATION:

Remuneration of directors as directors, officers or employees of the company during the year amounted to \$51,000.

AUDITORS' REPORT

To the Shareholders of
GREAT NORTHERN GAS UTILITIES LTD.:

We have examined the consolidated balance sheet of Great Northern Gas Utilities Ltd. and its subsidiary companies as at December 31, 1966 and consolidated statements of income and surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and surplus present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying consolidated statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned consolidated financial statements, presents fairly the sources and applications of funds of the companies for the year ended December 31, 1966.

February 24, 1967

CLARKSON, GORDON & CO.
Chartered Accountants

GREAT NORTHERN GAS UTILITIES LTD. AREAS SERVED



